

PUBLIC DISCLOSURE

March 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Chasewood Bank
Certificate Number: 24272**

**20333 State Highway 249
PO Box 90888
Houston, Texas 77290-0888**

Federal Deposit Insurance Corporation

**Division of Compliance and Consumer Affairs
1910 Pacific Avenue, 20th Floor
Dallas, Texas 75201**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Chasewood Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 13, 2002**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The bank also received a Satisfactory rating at its previous December 1, 1997, CRA evaluation.

For this two office, \$56 million bank located in Houston, Texas, examiners applied those performance factors applicable to CRA small bank: loan-to-deposit ratio, lending inside the assessment area, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, and response to CRA related complaints. Examiners reviewed samples of consumer and commercial loans to determine the bank's record. Investments and services were not reviewed.

In arriving at the overall rating for this institution, examiners put less weight on the geographic distribution of loans, as the bank's assessment area does not include any low- or moderate-income census tracts. Similarly, since there were not any complaints received after the last evaluation, this factor played no part in the assignment of the overall rating. Individual conclusions for the factors reviewed are summarized below, with performance under each test detailed elsewhere in this evaluation.

- A majority of sampled loans by number are within the assessment area. A majority of the dollar volume of consumer loans sampled were also in the assessment area, with slightly less than a majority of the dollar volume of commercial loans made in the assessment area. Overall, performance was considered adequate.
- The average loan-to-deposit ratio has increased slightly since the previous evaluation and reflects acceptable responsiveness to the assessment area credit needs.

- The bank has achieved a satisfactory dispersion of loans within its assessment area.
- The bank has a reasonable penetration of consumer loans to borrowers of different income levels and a good record of lending to businesses of different sizes.

DESCRIPTION OF INSTITUTION

The Chasewood Bank, a commercial bank, operates two offices approximately 25 miles northwest of the central business district of Houston, Texas. The institution's main office and branch office are located in a suburban area in northern Harris County. The branch office is located approximately five miles from the main office in a residential area.

The institution's business strategy is to maintain its "community" reputation and image and provide customers personal service. The Chasewood Bank is a small independent community bank that offers a full range of financial products including real estate, commercial, and consumer loans.

The Chasewood Bank's December 31, 2001, Consolidated Report of Condition and Income reports total assets of \$55,885,000 and total loans of \$19,613,000. Table 1 contains information about The Chasewood Bank's loan portfolio mix as reported in the December 31, 2001, Consolidated Report of Condition and Income.

The following table shows the bank's loan portfolio mix by dollar amount outstanding.

Table 1 - Loan Distribution as of December 31, 2001		
Loan Type	Amount (000's)	Percent of Total Loans (%)
Construction and Land Development	\$ 2,794	14.3
1-4 Family Residential	6,465	32.9
Commercial	7,128	36.3
Total Real Estate Loans	\$ 16,387	83.5
Commercial and Industrial	1,215	6.2
Consumer	1,993	10.2
Other	18	0.1
Less: Unearned Income	0	0.0
Total Loans	\$ 19,613	100%

Source: December 31, 2001 Consolidated Reports of Condition and Income

The institution offers an array of deposit services, including demand deposits, NOW, MMDA, savings, and time accounts. There is a minimum balance of \$200 required to open and maintain a checking account and \$600 minimum balance to avoid a monthly service charge. The main office and branch lobby hours are 9:00 a.m. to 4:00 p.m. Monday through Thursday and 9:00 a.m. to 6:00 p.m. on Friday. The lobby is open 9:00 a.m. until noon on Saturday. The drive-in hours are 7:00 a.m. to 7:00 p.m. Monday through Saturday at the main office and 7:00 a.m. to 7:00 p.m. Monday through Friday at the branch office and 8:00 a.m. to 1:00 p.m. on Saturday. The Chasewood Bank has three on-site automated teller machines that allow customers 24-hour access to their accounts. The bank offers on-line banking through both PC banking and Internet banking with in-house transactional capabilities. In addition, the bank offers customers 24-hour telephone access to their accounts in both English and Spanish.

DESCRIPTION OF ASSESSMENT AREA

Scope

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which the bank will concentrate its lending efforts. The Federal Deposit Insurance Corporation (FDIC) evaluates the institution's CRA performance within the defined assessment area. The Chasewood Bank's assessment area meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income geographies.

The institution has defined its assessment area as 16 contiguous census tracts in the northern portion of Harris County. Harris County is one of the six counties within the Houston Metropolitan Statistical Area (MSA). The Chasewood Bank has many competitors providing financial services in the local area including several credit unions, local branches of large financial institutions, and a number of mortgage and small finance companies.

Demographic Data

The assessment area includes 3 middle- and 13 upper-income census tracts. There are no low- or moderate-income areas located within the assessment area. The Chasewood Bank's main and branch offices are both located in upper-income census tracts. Ninety-one percent of the population resides within census tracts designated as upper-income, while the remaining nine percent live in middle-income census tracts. Although the assessment area does not include any low- or moderate-income census tracts, the 1990 census report of household and family income indicates that nine percent of the households in the assessment area are considered low-income households and nine percent are considered moderate-income households. Approximately four percent of families live below the poverty level.

The 1990 census reports the assessment area with a population of 108,109. Based on census data, the population in Harris County has grown by approximately 15 percent from 2,818,199 in 1990 to 3,250,404 in 1999. In comparison, the population has increased 18 percent for the state of Texas and 10 percent for the nation. The 1990 median family income (MFI) for the assessment area is \$36,886. The Department of Housing and Urban Development (HUD) estimated the 2000 and 2001 MFI for the Houston Metropolitan Statistical Area to be \$56,700 and \$58,500, respectively.

Economic Data

The City of Houston's economy continues to rely heavily on energy related industries. Compaq Computers headquarters are located in the same industrial and office complex as The Chasewood Bank. The potential takeover of Compaq by Hewlett Packard adds further near-term risk to the local economy. Although Houston will remain a major location for the merged company, many overlapping operations would be cut. The recent bankruptcy of Enron will create approximately 4,000 layoffs and will create double-digit vacancies in the office market. The area along State Highway 249 where the main and branch offices are located continues to increase the amount of small retail businesses and local jobs. The unemployment rate for Harris County as of December 31, 2001 is 4.6 percent, up from 3.5 percent at December 31, 2000. The state of Texas unemployment rate at December 31, 2001, was 5.1 percent and the national unemployment rate was 5.2 percent for the same period.

Examiners interviewed one community contact to assist in the performance context of this evaluation. The contact provided information regarding the current local economic trends, and credit needs in the area. He indicated there is a lot of competition in the Houston market. The interviewee indicated there continues to be a need for small business lending in the area and those needs are generally being met by several local and regional financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Sampling Information

As depicted in Table 2 below, The Chasewood Bank's consumer lending comprise the largest category by number volume at 50 percent and commercial loans comprise the largest category by dollar volume at 68 percent of loans originated in 2000 and 2001. Residential real estate loans comprised only 14 percent of the number and 20 percent of the dollar volume of loans originated in 2000 and 2001. As a result, consumer and commercial loans were used to evaluate the bank's lending performance under the Community Reinvestment Act. Commercial loans were weighted slightly more in the evaluation, as they appear to represent the bank's primary lending focus. A sample of consumer loans and small business loans for years 2000 and 2001 were used in the evaluation, as the lending activity in those years is consistent with the activity since the last evaluation.

Table 2 – Loan Originations between January 1, 2000 and December 31, 2001				
	Number	Percent %	* Amount	Percent %
Commercial	150	35.6	19,896	67.9
Consumer	211	50.1	3,469	11.8
Residential Real Estate	60	14.3	5,939	20.3
Gross Loans	421	100%	\$ 29,304	100%

Source: Bank records. *(000's) omitted.

A random sample, using a 90 percent confidence level and 15 percent precision level, of 39 consumer loans totaling \$780,872 originated between January 1, 2000 and December 31, 2001, was reviewed from a potential universe of 211 loans totaling \$3,469,572 for the same period. Thirty-seven commercial loans totaling \$2,357,010 originated between January 1, 2000 and December 31, 2001 were reviewed from a potential universe of 150 loans totaling \$19,896,239 for the same period.

LENDING IN THE ASSESSMENT AREA

The Chasewood Bank's proportion of lending activity within the assessment is adequate.

An assessment area is a geographical area in which the bank intends to concentrate the majority of its lending. Criteria for a bank's lending performance is based on the number and dollar volume of loans originated within the assessment area. Table 3 illustrates the bank's record of lending in the assessment area.

Table 3 – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					*Dollar Volume of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans 2000 and 2001	21	53.8	18	46.2	39	513	65.7	268	34.3	781
Commercial Loans 2000 and 2001	22	59.5	15	40.5	37	1,133	48.1	1,224	51.9	2,357
Total	43	56.6	33	43.4	76	\$1,646	52.5	\$1,492	47.5	\$3,138

Source: Bank records. *(000's) omitted.

As shown in Table 3 above, The Chasewood Bank originates a majority of the number of consumer and commercial loans inside the assessment area. A majority of the consumer loans sampled by dollar volume are within the assessment area, while slightly less than a majority of the dollar volume of commercial loans were made in the assessment area. There were two larger commercial loans sampled that were originated just outside the bank's assessment area in an adjacent census tract.

Overall, the bank's level of lending within the assessment area is considered adequate relative to the size of the assessment area in relation to the bank's size and number of offices.

LOAN-TO-DEPOSIT RATIO

The bank's lending activity, as measured by the loan-to deposit ratio, is acceptable. Since loans are primarily funded through the bank's deposits, examiners reviewed the bank's loan-to-deposit ratio as an indicator of the institution's level of lending activity. As indicated in Table 4, The Chasewood Bank's average loan-to-deposit ratio for the 17 quarters since the previous evaluation is 34.72 percent. The bank's loan-to-deposit ratio as of December 31, 2001, is 38.18 percent.

The bank's level of lending has shown a steady increase from June 2000 when the bank opened its branch office on Cypresswood Drive. Deposits have also steadily increased for the same time period.

Table 4 – Loan-To-Deposit Ratio Comparative Analysis				
Bank Name	* Total Assets	* Total Loans	* Total Deposits	Average Loan-to-Deposit Ratio
Chasewood Bank	55,885	19,613	50,799	34.72
Enterprise Bank	55,948	44,192	51,348	81.73
Tradition Bank	53,631	30,052	47,215	51.85
Crosby State Bank	114,660	39,181	106,908	29.28
The State Bank of Texas	84,649	45,869	77,661	57.05

* (000's) omitted

To assist in the analysis of the adequacy of the bank's ratio, the ratios of similar-sized institutions located in Houston were also reviewed. The similar-sized institutions listed above were reviewed for comparability of branching networks, product mix, and customer base. All four of the similar-sized institutions listed above are located in other areas of Harris County and have different markets than The Chasewood Bank. Although The Chasewood Bank's loan-to-deposit ratio is lower than all but one of the ratios of the other institutions listed, unique characteristics of the bank's deposit base were considered.

The bank has a few large depositors that maintain approximately twelve million dollars in their accounts, which represents 24 percent of total deposits. These customers have very little or no loan demand. If these deposits are excluded, the loan-to-deposit ratio approximates 51 percent.

After consideration of the characteristics of the deposit base, the bank's overall lending performance is considered acceptable.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's overall record of lending in geographies of different incomes is satisfactory in relation to the geographic makeup and location of the bank's offices. The distribution of consumer loans is reasonable, and the distribution of commercial loans is good. When arriving at the overall rating, examiners placed less weight on the bank's record regarding geographic distribution of loans due to the absence of any low- or moderate-income geographies.

Consumer Loans

The geographic distribution of consumer loans is reasonable. An analysis was performed using the sampling procedures previously described. Tables 5 and 6 represent the geographic distribution by number and dollar volume compared to the proportion of households in those geographies.

Table 5– Geographic Distribution of Consumer Loans by Number for 2000 and 2001				
Income Level of Census Tracts	Households	Percent	Number of Loans	Percent
Middle	3,261	8.5	3	14.3
Upper	33,603	91.5	18	85.7
Total	36,864	100%	21	100%

Source: 1990 U.S. Census. Bank records.

Table 6– Geographic Distribution of Consumer Loans by Dollar Volume for 2000 and 2001				
Income Level of Census Tracts	Households	Percent	* Dollar Volume of Loans	Percent
Middle	3,261	8.5	23	4.5
Upper	33,603	91.5	490	95.5
Total	36,864	100%	\$513	100%

*Source: 1990 U.S. Census. Bank records. *(000's) omitted*

More weight was placed on the distribution by number of loans. The bank's dispersion of consumer loans by number in middle-income geographies is slightly higher than the proportion of households residing in those areas. This level of performance is deemed satisfactory.

Commercial Loans

The geographic distribution of commercial loans is good. An analysis was conducted using the sampling procedures previously described within the bank's assessment area. Tables 7 and 8 represent the geographic distribution by number and dollar volume compared to aggregate data. Aggregate data is information required to be reported by banks subject to the data collection requirements on the CRA regulations. Banks subject to these requirements have total assets of \$250 million or more or are part of a bank holding company that has total banking and thrift assets of \$1 billion or more. The Chasewood Bank is not subject to the data reporting requirements, but the aggregate data was used in the analysis to provide a measure of comparison.

Table 7– Geographic Distribution of Commercial Loans by Number for 2000 and 2001				
Income Level of Census Tracts	Aggregate Data 2000	Percent	Number of Loans	Percent
Middle	467	13	10	45.5
Upper	3,143	87	12	54.5
Total	3,610	100%	22	100%

Source: CRA Aggregate Data, Bank records.

Table 8 – Geographic Distribution of Commercial Loans by Dollar Volume for 2000 and 2001				
Income Level of Census Tracts	Aggregate Data 2000	Percent of	* Dollar Volume of Loans	Percent
Middle	12,502	13	687	60.6
Upper	84,052	87	446	39.4
Total	\$96,554	100%	\$1,133	100%

*Source: CRA Aggregate Data, Bank records. *(000's) omitted.*

The geographic distribution of commercial loans sampled reflects a good dispersion throughout the assessment area compared to the aggregate lending data, with higher concentrations in middle-income areas than the aggregate.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

The bank's overall record of lending to borrowers of different incomes and businesses of different sizes is satisfactory. The distribution of consumer loans is reasonable, and the distribution of commercial loans to businesses of different sizes is good.

An analysis of the distribution of consumer and small business loans was conducted using the sampling procedures previously described. Household income classification and household statistics for the assessment area were derived from the 1990 U.S. census data. The aggregate data used for the assessment area was derived from 2000 CRA data collection of small business loan data.

The 2000 and 2001 HUD adjusted MFI for the Houston Metropolitan Statistical Area of \$56,700 and \$58,500 respectively, were used in this analysis. Table 9 provides information on how each income level is defined.

Table 9 - Income Ranges for Assessment Area			
Income Level	Percent of MFI	Income Range 2000	Income Range 2001
Low	Less than 50	Less than \$28,350	Less than \$29,250
Moderate	50 to < 80	\$28,350 to < \$45,360	\$29,250 to < \$46,800
Middle	80 to < 120	\$45,360 to < \$68,040	\$46,800 to < \$70,200
Upper	120 and over	\$68,040 or more	\$70,200 or more

Consumer Loans

The Chasewood Bank demonstrated reasonable performance of distributing consumer loans among borrowers of different incomes. Tables 10 and 11 illustrate the bank's performance among borrowers of different income levels when compared to the percent of households with those income levels in the assessment area.

Table 10 – Distribution of Consumer Loans by Borrower's Income			
Borrower's Income Level	Households	2000 and 2001	
	Percent	Number of Loans	Percent
Low	9	4	19
Moderate	9	3	14
Middle	15	2	10
Upper	67	12	57
Total	100%	21	100%

Source: 1990 U.S. Census. Bank records

Table 11 – Distribution of Consumer Loans by Borrower's Income			
Borrower's Income Level	Households	2000 and 2001	
	Percent	* Dollar Volume of Loans	Percent
Low	9	18	4
Moderate	9	37	7
Middle	15	26	5
Upper	67	432	84
Total	100%	\$513	100%

Source: 1990 U.S. Census. Bank records, * (000's) omitted.

More weight was placed on the distribution of loans by number. The percentage of consumer loans made to low- and moderate-income borrowers is greater than the percentage of households in the assessment area. This performance meets expectations as the distribution of the number of consumer loans is typically skewed toward lower-income borrowers. Consumer loans are often more in demand by low- and moderate-income borrowers due to their smaller loan size. Additionally, middle- and upper-income borrowers generally have access to more sources of funding for these types of credit.

Commercial Loans

The bank's record of lending to businesses of different sizes is good. Lending performance was analyzed by gross annual revenue of the business and by loan size. Tables 12 and 13 present a comparison of the number and dollar volume of commercial loans extended by the bank inside the assessment area to aggregate data for 2000 by gross annual revenues.

Table 12 – Distribution of Commercial Loans by Gross Annual Revenues of Business for 2000 and 2001			
Gross Annual Revenues (000s)	Aggregate Data 2000 (% of #)	Number	Percent
≤ \$1,000	39.6	21	95.5
> \$1,000	60.4	1	4.5
Total	100	22	100

Source: CRA Aggregate Data, Bank records.

Table 13 – Distribution of Commercial Loans by Gross Annual Revenues of Business for 2000 and 2001			
Gross Annual Revenues (000s)	Aggregate Data 2000 (% of \$)	* Dollar Volume	Percent
≤ \$1,000	61.9	1,083	95.5
> \$1,000	38.1	50	4.5
Total	100	\$ 1,133	100

Source: CRA Aggregate Data, Bank records, * (000's) omitted.

A substantial majority of the bank's loans were made to businesses with gross annual revenues of \$1 million or less. The bank's concentration of loans in this category is much higher than the aggregate data. While this data indicates strong performance, it is not out of line with expectations for this \$56 million dollar bank. As discussed on page 8, the aggregate data consists of larger banks or banks that are part of large holding companies. It is more likely that they would have the capacity to meet the credit needs of larger businesses with larger lending needs. Therefore, they would likely have more loans to businesses with revenues of more than \$1 million than a smaller bank. Even with this expectation, the bank's performance is considered to be good with nearly all of the sampled loans made to businesses with gross annual revenues of \$1 million or less.

Commercial loans were also analyzed by loan size since it is an indirect measure of small business lending performance. Tables 14 and 15 illustrate the bank's record of commercial lending by the dollar amount of loans.

Table 14– Distribution of Commercial Loans by Loan Size			
Loan Size (000s)	Aggregate Lending Data (% of #)	1999 and 2000	
	2000	Number	Percent
≤ \$100	95.3	20	91.0
> \$100 ≤ \$250	2.5	1	4.5
> \$250 ≤ \$1,000	2.2	1	4.5
Total	100 %	22	100 %

Source: CRA Aggregate Data, Bank records.

Table 15– Distribution of Commercial Loans by Loan Size			
Loan Size (000s)	Aggregate Lending Data (% of \$)	1999 and 2000	
	2000	* Dollar Volume	Percent
≤ \$100	40.6	647	57.1
> \$100 ≤ \$250	16.0	171	15.1
> \$250 ≤ \$1,000	43.4	315	27.8
Total	100 %	\$1,133	100 %

*Source: CRA Aggregate Data, Bank records, *(000's) omitted.*

More weight was given to the distribution by number. The distribution of the bank's origination of loans under \$100,000 is fairly consistent with the reporting banks.

Overall, the review of commercial loans by gross annual revenue and loan size shows the bank has demonstrated good performance in originating loans to small businesses in the assessment area.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

No substantive violations of the anti-discrimination laws were identified. The Chasewood Bank has adequate procedures in place to help ensure ongoing compliance with the requirements of the laws, including review, monitoring, and training procedures.

GLOSSARY

BLOCK NUMBERING AREAS (BNAs) - a small locally demarcated area, usually in a metropolitan neighborhood.

CENSUS TRACT - a small locally demarcated area, usually in a metropolitan neighborhood, defined by the Census Bureau to generally consist of stable boundaries and an average population of 4,000.

DUN AND BRADSTREET – a leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

LOW-INCOME -

- for a census tract - this refers to income levels less than 50% of the MFI for the MSA in which the tract is located.
- for individuals - this refers to income levels less than 50% of the most recent year's estimation of the MFI by the Department of Housing and Urban Development (HUD).

MFI - median family income as determined by the Census Bureau or HUD.

MIDDLE-INCOME - determined using the same methodology as for low-income. The percentage used for middle-income designation is $80\% \leq 120\%$.

MODERATE-INCOME - determined using the same methodology as for low-income. The percentage used for moderate-income designation is $50\% \leq 80\%$.

MSA - metropolitan statistical area as determined by the Census Bureau. Usually consists of contiguous census tracts and block numbering areas comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

UPPER-INCOME - determined using the same methodology as for low-income. The percentage used for upper-income designation is 120% or greater.